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SUBJECT: PYRAMID SCHEME COLLAPSES, THOUSANDS LOSE LIFE SAVINGS

1. Summary: The death of Jose Cabrera Roman, a notary in the City of Machala in El Oro province, exposed and precipitated the collapse of a massive pyramid scheme he had run for over a decade. Reports indicate that anywhere from 26,000 to 37,000 people made deposits with Cabrera, reportedly totaling in the hundreds of millions of dollars, in return for monthly interest payments of seven to ten percent. Cabrerass clients/victims include individuals from all walks of life and every province in Ecuador, and the public outcry (for protection from the victims, for prosecution of the beneficiaries) in the month since his death has been vocal and persistent. The trail of those who invested in this illegal operation, were aware of it but took no action to halt it, or tried to steal their money back after Cabrera died, continues to lead higher in civilian government, police and military ranks fueling a full-blown scandal of major proportions which has thus far claimed victims mainly in the military. End summary.

#### The Way it Worked

2. It appears that at some point in the mid-1990s, Machala-based notary Jose Cabrera Roman began his pyramid or Ponzi scheme taking in deposits and paying interest rates from seven to ten percent per month, which, calculated on a yearly basis, would be about nine times the legal maximum rate established by the Central Bank of Ecuador. His clientele grew over the years, and at the time of his death, he had an estimated 26,000-37,000 depositors and his staff was seeing about 400 people a day. Press accounts suggest that the average deposit was \$13,000 dollars although there were many including military and police who reportedly had deposits in excess of one hundred thousand dollars. Ecuadors highly regarded news magazine, "Vistazo," claims that at the time of his death, Cabrera may have had \$320 million in his possession.

3. Attracted by the high interest rates, past banking failures and the confidence-inspiring longevity of the operation, people and groups from throughout Ecuador were depositing their life savings (or mortgaging their properties) to buy into this get-rich-quick scheme. Individually and by groups, farmers, soldiers, police, families receiving remittances from abroad, rich and poor alike were clients of notary Cabrera. Some reportedly quit their jobs and simply lived off the interest payments. The scheme was able to finance itself as long as the money base was expanding and more deposits were coming in. Although there is much speculation about money laundering, counterfeiting or possible investments that generated profit, none has been confirmed to date and there may be no more to this operation than the scam itself.

#### The House of Cards Falls

4. Press accounts describing Cabrera as being in the company of an eighteen year-old woman at the time of death added spice to the incredible story that unfolded. He was buried and mourned by many in Machala and for a few weeks his "business" continued. The notarys son and daughter, who had no apparent direct connection to the scheme previously, took over the business and assured people that things would continue as before. An Ecuadorian attorney who has spoken to the Cabrera family in the U.S. told Guayaquil Consul General that the family had no real knowledge of the operations of Cabrerass business and they had been shocked to find a room in his office literally filled with cash, and hundreds of people gathered outside the offices

s demanding their money. According to the attorney, they very quickly realized this was far beyond their ability to manage and they were fearful for their safety. The lawyer also stated Cabrerass children claim they were never given any of this money and took nothing from the money-filled room, if for no other reason than fearing the crowds outside who were searching anyone exiting the building.

#### Family Connections

15. Cabrerass wife, Ana Teresa Gallardo Moscoso, left for the U.S. on November 6 and her two children, forty-year-old Jose Cabrera Gallardo and thirty-five-year-old daughter, Carolina Cabrera Gallardo, departed the following day for the safety of a relative's house in Connecticut. Despite speculation, no hard evidence has yet surfaced that the family members were ever part of the scam or were enriched by it. Credit checks done by the Consulate confirm that neither of the two children has obvious wealth in Ecuador. Jose Cabrera Gallardo recently married but lived in his parents home. The daughter appears to have a legitimate construction business, and she is current on repaying a bank loan she took out for her business. The Cabrera residence in Machala appears to be nothing more than an upper middle-class home, and the Guayaquil attorney who met with the family in Connecticut told Consul General that the family members do not wish to stay in the U.S. because it is too expensive.

#### Chaos breaks out in Machala

16. When the news of the familys departure hit, chaos ensued. On November 14, a frenzied crowd in Machala dug up the body Cabrera after a rumor surfaced that he had not died but had instead fled the country. TV news viewers were provided with graphic footage of the corpse being poked with sticks by crowd members trying to determine if the body was really Cabrera and not a dummy. The fact that onlookers were holding handkerchiefs to their noses supported the view that the cadaver was real. Jilted clients of the ex-notary have continued to turn out in hundreds to demand their money back by marching through the streets, throwing stones at the radio station, calling for the ouster of the Mayor and Governor of Machala and demanding that the government of Ecuador intervene and make restitution. Police and military intervened, but their apparent motivation was more to try to get their hands on as much of the money as they could before it disappeared than to restore order. On November 16, the government of Ecuador declared a state of emergency in Machala but the atmosphere of insecurity has continued.

#### Military and police officials involved in the scheme

17. Cabrerass client list was impressive, and not only for its length. Newspaper accounts of the case reveal that depositors represented a cross-section of Ecuadorian society. Nicolas Castro Patino, a candidate for the Supreme Court, had deposited \$15,000 with Cabrera, which resulted in his disqualification as a candidate. A major Ecuador daily newspaper estimates that 20% of Ecuador's Armed Forces personnel (about 6,000 people) gave Cabrera money. Teodoro Codero Jaramillo, president of the Supreme Court of Machala, resigned from his post when it was discovered he had given money to Cabrera after initially claiming he had no knowledge of the scheme. Congressional deputy Guillermo Haro is leading an investigation of the scheme, promising to reveal military and civilian political participants by January.

18. In another twist, on November 11 two military flights, including the Ecuadorian equivalent of Air Force One, were dispatched to Cabrerass office to collect personal deposits made by high military officials in Quito. Upon arrival, the military officials clashed with police guarding Cabrerass office. A police officer sent to the office of the ex-notary to recover money was caught stuffing \$25,000 into his bullet-proof vest. During the early hours of November 12, military Special Forces soldiers were reportedly taking boxes and bags of money out of Cabrerass office building after again clashing with police who were also taking cash away. Machala Attorney General Alberto Caiviguana confiscated \$346,000 from various civilian, police and military looters. As of December 2, 23 arrests have been ordered of various police and military officials for their involvement in the scheme or their attempts to recover (or simply steal) money. The Machala police chief and his deputy are already in jail. The employees of Cabrera have also been detained.

#### Illegal pyramid schemes continue

19. The Machala newspapers continue to be full of classified ads offering high interest rates in return for deposits and dozens of people have reportedly withdrawn their money from the Bank of Machala fearing general financial instability.

110. Comment: It is still uncertain how many people made

deposits with Cabrera, how much money was lost, and what Cabrera did with the estimated hundreds of millions of dollars. Rumors abound that Cabrera was involved in money laundering, drug trafficking or other illicit activities. One newspaper has reported that the U.S. Drug Enforcement Agency had cleared Cabrera of involvement in drug trafficking, which came as a surprise to DEA personnel at post. A month after his death, the press continues to be filled with new revelations about this strange and sensational case. On December 2, the body of Cabrera was exhumed again, this time legally, to determine officially if it really was him. There have been unofficial calls for the extradition of the Cabrera family members from the United States. Today saw the sacking of several senior military officials in Quito, including the Chairman of the Joint Chiefs, presumably in connection with this case. The whole story has not yet fully played out and the scandal could still reach higher. End comment.

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